

Introduced by Senator Kehoe

February 17, 2011

An act to amend Section 10170 of the Insurance Code, relating to life insurance.

LEGISLATIVE COUNSEL'S DIGEST

SB 599, as introduced, Kehoe. Life insurance: retained-asset account.

Existing law provides that life insurance may be made payable, among other things, on the death of the insured, on his or her surviving for a specified period of time, or periodically as long as he or she lives.

This bill would prohibit an individual or group life insurance policy delivered or issued for delivery in this state from containing a provision that requires the beneficiary to take life insurance proceeds in the form of a retained-asset account, as defined, or any arrangement other than a lump-sum payment. The bill would require that unless a policyholder or beneficiary has elected in writing that the beneficiary be paid life insurance benefits in another form, all life insurance benefits would be paid in the form of a lump-sum payment to the beneficiary. Any life insurance benefits settlement insurer recommendations and agreements, other than for a lump-sum payment, would be required to conform to specified conditions. The bill would authorize the Insurance Commissioner to adopt regulations specifying reasonable requirements for the form of agreements entered into and written disclosures provided by these provisions.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 10170 of the Insurance Code is amended to read:

10170. ~~An insurance upon life~~ *Life insurance* may be made payable *as follows*:

- (a) On the death of the insured.
- (b) On his *or her* surviving a specified period.
- (c) Periodically as long as he *or she* lives.
- (d) Otherwise contingently on the continuance or determination of life.

(e) Upon ~~such~~ *those* terms and conditions and subject to ~~such~~ *those* restrictions as to revocation by the policyholder and control by beneficiaries as shall have been agreed to in writing by the insurer and the policyholder. If no terms and conditions have been agreed to by the insurer and the policyholder during the insured's lifetime then upon ~~such~~ *those* terms and conditions and subject to ~~such~~ *those* restrictions as may be agreed to in writing by the insurer and the beneficiaries. Any ~~such~~ agreement may be rescinded or amended by the parties ~~thereto to the agreement~~ without the consent of any *designated* beneficiary ~~therein designated~~ unless the rights of any ~~such~~ beneficiary have been expressly declared to be irrevocable. No ~~such~~ agreement hereafter made shall vest in the insurer discretion as to the conditions, time, amount, manner, or method of payment. The relationship between the insurer and the policyholder or beneficiaries under any ~~such~~ agreement shall be that of debtor and creditor, and the insurer shall not be required to segregate funds so held but shall hold them as a part of its general corporate assets.

(f) *An individual or group life insurance policy delivered or issued for delivery in this state shall not contain a provision that requires the beneficiary to take life insurance proceeds in the form of a retained-asset account or any arrangement other than a lump-sum payment. Notwithstanding subdivision (e), unless a policyholder or beneficiary has elected in writing that the beneficiary shall be paid life insurance benefits in another form, all life insurance benefits shall be paid in the form of a lump-sum payment to the beneficiary. If the life insurance policy provides for settlement options in addition to a lump-sum payment to the beneficiary, a policyholder shall have the option to choose how*

1 *benefits are to be paid to the beneficiary. Any choice by the*
2 *policyholder shall be reflected in writing. If no election as to how*
3 *life insurance proceeds are to be paid has been made by the*
4 *policyholder during the insured's lifetime, then the beneficiary*
5 *shall choose how life insurance proceeds are paid and unless the*
6 *beneficiary agrees in writing to receive payment in a form other*
7 *than a lump-sum payment, the proceeds shall be paid in the form*
8 *of a lump-sum payment.*

9 *(1) If an insurer recommends to a policyholder that the*
10 *beneficiary receive life insurance proceeds in the form of a*
11 *retained-asset account or any arrangement other than a lump-sum*
12 *payment, the insurer shall provide the policyholder, at the time*
13 *the recommendation is made, written information describing each*
14 *of the settlement options available under the policy and specific*
15 *details relevant to those options. If an insurer recommends to a*
16 *beneficiary that the beneficiary receive life insurance proceeds in*
17 *the form of a retained-asset account or any arrangement other*
18 *than a lump-sum payment, the insurer shall provide the beneficiary,*
19 *at the time a claim is made, written information describing each*
20 *of the settlement options available under the policy and specific*
21 *details relevant to those options.*

22 *(2) For purposes of this subdivision, the following terms have*
23 *the following meanings:*

24 *(A) "Lump-sum payment" means a single payment made directly*
25 *to the beneficiary that satisfies all of the benefits owed to the*
26 *beneficiary.*

27 *(B) "Retained-asset account" means any mechanism whereby*
28 *the settlement of proceeds payable under a life insurance policy*
29 *is accomplished by the insurer, or an entity acting on behalf of the*
30 *insurer, by depositing those proceeds into or establishing an*
31 *account where those proceeds are retained by the insurer pursuant*
32 *to a supplementary contract not involving annuity benefits.*

33 *(g) The commissioner may, from time to time and after notice*
34 *and public hearing, adopt regulations specifying reasonable*
35 *requirements for the form of agreements entered into and written*
36 *disclosures provided pursuant to subdivisions (e) and (f), and for*
37 *compliance with Section 10172.5.*

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